



Legislative Audit Division

State of Montana

Report to the Legislature

November 2002

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

Office of Public Instruction

This report contains four recommendations related to:

- ▶ **National School Lunch Program On-Site Reviews.**
- ▶ **Special Milk Program Reimbursements.**
- ▶ **Compensatory Time.**
- ▶ **Conflict of Interest.**

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02-16

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

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Office of Budget and Program Planning
State Capitol
Helena MT 59620
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Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

November 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report for the Office of Public Instruction for the two fiscal years ended June 30, 2002. Our report contains four recommendations related to National School Lunch Program on-site reviews, Special Milk Program reimbursements, the administration of compensatory time and a conflict of interest. The office's written response to the audit recommendations is included in the back of the report.

We thank the Superintendent and her staff for their assistance and cooperation during the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

Office of Public Instruction

Members of the audit staff involved in this audit were Jason Gilliam, Cindy S. Jorgenson, Paul J. O'Loughlin, and Sonia Powell.

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Elected and Administrative Officials

Office of Public Instruction

Linda McCulloch, Superintendent

Bill Cooper, Deputy Superintendent

Madalyn Quinlan, Chief of Staff

Jeff Weldon, Chief Legal Counsel

Nancy Coopersmith, Assistant Superintendent, Department of
Education Services

Spencer Sartorius, Assistant Superintendent, Department of
Education Services

Kathy Fabiano, Assistant Superintendent, Department of Operations

For additional information concerning the Office of Public
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Report Summary

Office of Public Instruction

This financial-compliance audit report contains the results of our audit of the Office of Public Instruction (office) for the two fiscal years ended June 30, 2002. We issued a qualified opinion on the financial schedules of the office for the two fiscal years ended June 30, 2002. The qualification resulted from the office recording compensated absences for nonexempt staff in the Internal Service Fund in fiscal year 2000-01. This means the reader should use caution when relying on the information presented and the supporting accounting records related to compensated absences activity in the Internal Service Fund for fiscal year 2000-01. The report contains four recommendations for improving office compliance with state and federal laws and regulations.

The prior audit report contained four recommendations addressed to the office. The office implemented all of the recommendations.

The listing below summarizes the recommendations contained in this report and the office's response thereto.

Recommendation #1

We recommend the office comply with federal regulations requiring on-site reviews of school food authorities participating in the National School Lunch Program 8

Agency Response: Concur. See page B-3.

Recommendation #2

We recommend the office reimburse schools participating in the Special Milk Program in accordance with federal regulations 9

Agency Response: Concur. See page B-3.

Recommendation #3

We recommend the office administer compensatory time in accordance with state policy 10

Agency Response: Concur. See page B-3.

Report Summary

Recommendation #4

We recommend the office take immediate appropriate action
to eliminate the conflict of interest..... 11

Agency Response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Office of Public Instruction (office) for the two fiscal years ended June 30, 2002. The objectives of the audit were to:

1. Determine if the office complied with applicable laws and regulations.
2. Make recommendations for improvement in the office's internal and management controls.
3. Determine if the office's financial schedules present fairly the results of its operations for each of the two fiscal years ended June 30, 2002.
4. Determine the implementation status of the prior audit recommendations.

This report contains four recommendations to the office. Other areas of concern deemed not to have a significant effect on the successful operations of the office are not included in this report, but have been communicated to management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

We performed procedures to evaluate charges for services for costs incurred in the office's Internal Service Fund as required by section 17-8-101(6), MCA. The Internal Service Fund contains the office's indirect cost pool. We found the charges and fund equity to be reasonable for the operations in this fund in fiscal years 2000-01 and 2001-02.

Department Organization and Function

The Office of Superintendent of Public Instruction is established in Article VI, Section 1, of the Montana Constitution. The Superintendent of Public Instruction is an elected official responsible for the general supervision of K-12 public schools and districts within the state of Montana. In addition, the superintendent is the governing agent and executive officer for K-12 vocational education in the state.

Introduction

The office, which is comprised of approximately 139 full-time equivalent employees as of June 30, 2002, provides services to school-age children and to teachers in more than 450 school districts. The staff furnishes technical assistance in planning, implementing, and evaluating educational programs. The office also oversees teacher preparation, teacher certification, school accreditation, school curriculum, school finance and school law. The staff administers numerous federal grants and provides a variety of information services.

The office records its financial activity in the State Level Activities and Local Education Activities programs. In fiscal year 2000-01, these programs were named 'OPI Administration' and 'Distribution to Public Schools,' respectively. The following paragraphs describe the activities accounted for in each program.

State Level Activities

The State Level Activities program is established for the delivery of state services and state and federal funds to schools. The staff of this program supports the superintendent's statutory role with the Board of Public Education, the Board of Regents and the Land Board. In addition, program personnel administer several state programs, such as state vocational education, gifted and talented, adult basic education, drivers' education, and audiology.

Within this program, the office oversees the financial reporting, cash management, and cost allocation functions for federal grants. This includes the Title I; Child Nutrition and Commodities; Vocational Education (Carl Perkins); Individuals With Disabilities Education Act, Part B (IDEA B); and Reduced Class Size grants. The program allocates centralized administrative costs of the office, such as payroll, personnel, accounting, budgeting, purchasing, word processing, and mail delivery to both state and federal activities through the use of an approved indirect cost rate.

To facilitate financial reporting and communication, the office operates the Montana Automated Education Financial and Information Reporting System (MAEFAIRS) and the Montana

Educational Telecommunications Network (METNET).

MAEFAIRS is an electronic reporting system for school districts.

The system allows the office to collect financial and enrollment data, process payments, and provide accurate and timely reports to school districts, the legislature, and the public. METNET is a web-based e-mail provider. METNET enables users to share instructional materials, exchange ideas, and link to the Internet.

Local Education Activities

The Local Education Activities program is established to distribute state and federal funds to local education agencies, which are primarily schools. Schools receive distributions for state support to schools, special education, traffic education, and federal grants.

Beginning in fiscal year 2001-02, schools also received school district block grants, resulting in a significant increase in the amount of distributions made to schools. Total distributions to schools from state and federal sources amounted to \$582,559,886 and \$644,971,865 in fiscal years 2000-01 and 2001-02, respectively. Of the fiscal year 2001-02 distributions, approximately 86 percent was for statutorily mandated state support to schools and block grant payments and state-supported programs such as special education and transportation, and 14 percent was for various federal grants.

Prior Audit Recommendations

Prior Audit Recommendations

The prior audit report contained four recommendations directed to the office. The office implemented all of the recommendations.

Findings and Recommendations

Child Nutrition Program

The office administers several federal programs aimed at providing healthy meals to children. The office contracts with local organizations, generally schools or non-profit organizations, for delivery of the services. Each school food authority (SFA) is reimbursed for a portion of the costs incurred in administering these programs. The following paragraphs address issues related to the National School Lunch and Special Milk Programs.

National School Lunch Program On-Site Reviews

The office is required to conduct on-site reviews of each SFA participating in the National School Lunch Program. There are approximately 270 SFAs in Montana. The office must conduct a review of each SFA during each review cycle established in federal regulation. The first review cycle ended June 30, 1998, and the second review cycle will end June 30, 2003. In addition, each review must be conducted no later than six years after the prior review.

During the audit, we reviewed a sample of ten SFAs to determine whether the office conducted the required reviews during the second review cycle. We determined reviews are not being completed as required by federal regulation. Four of the ten SFAs sampled have been reviewed during the second cycle. Of these four, two were conducted within six years of the prior review. Office personnel were unable to locate documentation of a prior review for the other two and, as a result, we are unable to determine if these two reviews are timely. The remaining six SFAs are not scheduled for review during the second cycle. Office personnel indicated turnover occurred in the positions assigned the on-site review responsibilities and estimate they are two years behind in completing on-site reviews.

Unless reviews are completed as prescribed by federal regulation, the office cannot be assured it will detect and address instances of non-compliance on the part of SFAs in a timely manner. The current program director has developed a new schedule of on-site reviews. If this schedule is utilized and no additional turnover occurs, the office will be able to fully comply with the on-site review

Findings and Recommendations

requirement approximately halfway through the fourth review cycle, which ends June 30, 2013. Additional staff or contract resources may be required to catch up on reviews that are required by federal regulations but have not been done. Continued noncompliance with the on-site review requirements may result in the loss of federal funds.

In response to this issue, the office hired a part-time employee in August 2002 to assist with on-site reviews. In addition, as part of the executive planning process, the office requested authorization of another full-time employee beginning in July 2003.

Recommendation #1

We recommend the office comply with federal regulations requiring on-site reviews of school food authorities participating in the National School Lunch Program.

Special Milk Reimbursements for Non- Pricing Programs

The office reimburses SFAs participating in the Special Milk Program for milk served to school children. The amount of reimbursement depends on the pricing program utilized by each SFA. In a 'non-pricing' program, all children receive free milk. The reimbursement rate for this program was 13 cents and 14.5 cents per half-pint of milk in fiscal years 2000-01 and 2001-02, respectively. In a 'pricing' program, children in households meeting certain income guidelines receive free milk while all other children pay for the milk they receive. The reimbursement under this program is calculated using the average cost of a half-pint of milk for the milk given to children and the non-pricing program rates for milk sold to children.

Approximately 52 SFAs participated in the Special Milk Program during fiscal years 2000-01 and 2001-02. Of these, 12 are authorized to administer non-pricing programs. The office used the pricing program reimbursement method for SFAs operating non-pricing programs. Because the average cost of a half-pint of milk is generally greater than the non-pricing program reimbursement rates,

Findings and Recommendations

a portion of the milk reimbursements is unallowable. We estimate the office overpaid school food authorities administering non-pricing programs by \$790 in fiscal year 2000-01. We did not estimate the amount overpaid in fiscal year 2001-02, but expect it to be similar to the amount determined for fiscal year 2000-01.

Office personnel indicated the electronic system purchased for the purpose of reporting milk served and calculating reimbursement amounts does not properly address the pricing program options available to the SFAs. They believe the system must be modified to ensure reimbursements are made in accordance with federal regulations and do not believe the cost of modifying the system will be significant.

Recommendation #2

We recommend the office reimburse school food authorities participating in the Special Milk Program in accordance with federal regulations.

Compensatory Time Payment

State policy provides for the accrual and use of compensatory time by state employees exempt from the Fair Labor Standards Act (FLSA). According to state policy, compensatory time is intended to provide exempt, salaried employees with greater flexibility in scheduling their time on the job. It is not intended to provide compensation above and beyond the annual salaries of exempt employees. These employees are allowed to accrue the time on an hour-for-hour basis when they work more than 40 hours per week. The accrued time may be used as paid time off at a later date.

During fiscal year 2000-01, the office charged the General Fund for a payment of \$6,839 to a non-terminating FLSA exempt employee for 225 hours of excess compensatory time. State policy does not provide for payment of excess compensatory time. Exempt employees are allowed to carry no more than 120 hours of compensatory time from one calendar year to the next. Any excess time not used in the first 90 days of the next calendar year must be

Findings and Recommendations

forfeited unless the agency head chooses to extend the deadline. State policy does not authorize such a payment, but rather directs the forfeiture of the excess hours.

Office personnel believed the payment was permissible because terminating members of the prior superintendent's personal staff were receiving compensatory time payments at the same time. Office personnel indicated they consulted with the State Personnel Division prior to making the payment. State Personnel Division personnel stated they understood the payment was being made to a member of the personal staff, over which they have no authority.

Recommendation #3

We recommend the office administer compensatory time in accordance with state policy.

Conflict of Interest

State law and policy contain a code of ethics designed to prohibit conflicts between public duty and private interest on the part of state employees. Section 2-2-105, MCA, specifically prohibits state employees from acquiring an interest in any business that may receive a direct and substantial benefit from official acts performed in their capacity as state employees. Section 2-2-102, MCA, defines "private interest" as a directorship or officership in a business and a "business" as an organization carrying on a business, whether or not operated for a profit. In addition, section 2-2-201, MCA, prohibits state employees from performing any official act that directly and substantially benefits a business if that employee is a representative or agent of that business. Federal regulations require the office to follow state law and policy in the administration of federal awards.

During our audit, we identified a relationship between an office employee and an organization receiving federal Migrant Education moneys administered by the office that is prohibited by state law and policy. The employee serves as a member of the board of directors of the recipient organization while also having responsibility for administration of these funds at the office. The employee has served

Findings and Recommendations

in this capacity for approximately ten years. According to the employee, office management reviewed the potential conflict of interest prior to the employee's involvement with the organization and determined it would not constitute a violation of the code of ethics. However, office personnel were unable to provide documentation of that decision. During the audit period the office disbursed \$478,271 to the organization, which we believe constitutes a direct and substantial benefit to that organization. Noncompliance with state law and policy results also in noncompliance with federal regulations applicable to the federal grant programs.

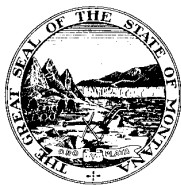
Recommendation #4

We recommend the office take immediate appropriate action to eliminate the conflict of interest.

Independent Auditor's Report & Office Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

To the Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of Public Instruction for each of the fiscal years ended June 30, 2002, and 2001. The information contained in these financial schedules is the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the office's assets, liabilities, and cash flows.

In fiscal year 2000-01, the office recorded compensated absences for nonexempt staff in the Internal Service Fund. As a result, fund balance is understated by \$734,776 at July 1, 2000, and \$735,704 at June 30, 2001, and nonbudgeted expenditures are overstated by \$928 for the fiscal year ended June 30, 2001, in the Internal Service Fund.

In our opinion, except for the effects of recording compensated absences in the Internal Service Fund, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Office of Public Instruction for each of the fiscal years ended June 30, 2002, and 2001, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

August 22, 2002

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>
FUND BALANCE: July 1, 2001	\$ (578,965)	\$ 76,400	\$ 0	\$ (457,821)	
PROPERTY HELD IN TRUST: July 1, 2001					\$ 48,577
ADDITIONS					
Budgeted Revenues & Transfers-In	38,175	96,370,924	101,415	1,469,310	
Nonbudgeted Revenues & Transfers-In	4,223	243,515	24,460	2,087	
Direct Entries to Fund Balance	515,206,817	37,773,202	(4,797)	805,044	
Additions To Property Held in Trust					125,651
Total Additions	<u>515,249,215</u>	<u>134,387,641</u>	<u>121,078</u>	<u>2,276,441</u>	<u>125,651</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	514,922,152	140,932,158	90,791	1,605,933	
Nonbudgeted Expenditures & Transfers-Out		143,012	1,979	74,557	
Prior Year Expenditures & Transfer-Out Adjustments	2,618	4,210		(165)	
Reductions to Property Held in Trust					126,211
Total Reductions	<u>514,924,770</u>	<u>141,079,380</u>	<u>92,770</u>	<u>1,680,325</u>	<u>126,211</u>
FUND BALANCE: June 30, 2002	\$ <u>(254,520)</u>	\$ <u>(6,615,339)</u>	\$ <u>28,308</u>	\$ <u>138,295</u>	
PROPERTY HELD IN TRUST: June 30, 2002					\$ <u>48,017</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>
FUND BALANCE: July 1, 2000	\$ <u>(189,032)</u>	\$ <u>204,653</u>	\$ <u>(490,444)</u>	\$ <u>3,512</u>
PROPERTY HELD IN TRUST: July 1, 2000				\$ <u>36,337</u>
 ADDITIONS				
Budgeted Revenues & Transfers-In	5,209,386	84,196,329	1,458,489	
Nonbudgeted Revenues & Transfers-In	44,560	60,538	1,834	
Prior Year Revenues & Transfers-In Adjustments	(64,000)	(26,846)		
Direct Entries to Fund Balance	503,500,073	545,265		(3,512)
Additions To Property Held in Trust				145,990
Total Additions	<u>508,690,019</u>	<u>84,775,286</u>	<u>1,460,323</u>	<u>142,478</u>
 REDUCTIONS				
Budgeted Expenditures & Transfers-Out	509,083,358	84,889,006	1,429,495	
Nonbudgeted Expenditures & Transfers-Out		15,206	21,413	
Prior Year Expenditures & Transfers-Out Adjustments	(3,406)	(673)	(23,208)	
Reductions to Property Held in Trust				133,750
Total Reductions	<u>509,079,952</u>	<u>84,903,539</u>	<u>1,427,700</u>	<u>133,750</u>
 FUND BALANCE: June 30, 2001	\$ <u><u>(578,965)</u></u>	\$ <u><u>76,400</u></u>	\$ <u><u>(457,821)</u></u>	\$ <u><u>0</u></u>
PROPERTY HELD IN TRUST: June 30, 2001				\$ <u><u>48,577</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Licenses and Permits		\$ 159,032			\$ 159,032
Taxes				\$ 2,087	2,087
Charges for Services		76,998	\$ 101,415	649,954	828,367
Investment Earnings		72,555			72,555
Sale of Documents, Merchandise and Property	\$ 38,175				38,175
Miscellaneous	4,223	21,752			25,975
Grants, Contracts, Donations and Abandonments		159,038			159,038
Other Financing Sources		7,331,166	24,460		7,355,626
Federal		88,793,898		819,356	89,613,254
Total Revenues & Transfers-In	<u>42,398</u>	<u>96,614,439</u>	<u>125,875</u>	<u>1,471,397</u>	<u>98,254,109</u>
Less: Nonbudgeted Revenues & Transfers-In	<u>4,223</u>	<u>243,515</u>	<u>24,460</u>	<u>2,087</u>	<u>274,285</u>
Actual Budgeted Revenues & Transfers-In	<u>38,175</u>	<u>96,370,924</u>	<u>101,415</u>	<u>1,469,310</u>	<u>97,979,824</u>
Estimated Revenues & Transfers-In	<u>35,000</u>	<u>103,906,915</u>	<u>215,000</u>	<u>1,415,000</u>	<u>105,571,915</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 3,175</u>	<u>\$ (7,535,991)</u>	<u>\$ (113,585)</u>	<u>\$ 54,310</u>	<u>\$ (7,592,091)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Licenses and Permits		\$ (784,968)			\$ (784,968)
Charges for Services		(13,202)	\$ (113,585)	\$ (65,046)	(191,833)
Sale of Documents, Merchandise and Property	\$ 3,175				3,175
Grants, Contracts, Donations and Abandonments		(2,200)			(2,200)
Other Financing Sources		2,232,916			2,232,916
Federal		(8,968,537)		119,356	(8,849,181)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 3,175</u>	<u>\$ (7,535,991)</u>	<u>\$ (113,585)</u>	<u>\$ 54,310</u>	<u>\$ (7,592,091)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Internal Service Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits		\$ 156,700		\$ 156,700
Taxes	\$ 5,200,034		\$ 1,834	5,201,868
Charges for Services		158,930	772,762	931,692
Sale of Documents, Merchandise and Property	9,352			9,352
Miscellaneous	(19,440)	8,158		(11,282)
Grants, Contracts, Donations and Abandonments		717,377		717,377
Other Financing Sources		5,214,334		5,214,334
Federal		77,974,522	685,727	78,660,249
Total Revenues & Transfers-In	<u>5,189,946</u>	<u>84,230,021</u>	<u>1,460,323</u>	\$ <u>90,880,290</u>
Less: Nonbudgeted Revenues & Transfers-In	44,560	60,538	1,834	106,932
Prior Year Revenues & Transfers-In Adjustments	<u>(64,000)</u>	<u>(26,846)</u>		<u>(90,846)</u>
Actual Budgeted Revenues & Transfers-In	5,209,386	84,196,329	1,458,489	90,864,204
Estimated Revenues & Transfers-In	11,032,026	82,542,237	1,330,000	94,904,263
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u><u>(5,822,640)</u></u>	\$ <u><u>1,654,092</u></u>	\$ <u><u>128,489</u></u>	\$ <u><u>(4,040,059)</u></u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits		\$ (800)		\$ (800)
Charges for Services		(9,673)	\$ 87,762	78,089
Fines and Forfeits	\$ (5,804,992)			(5,804,992)
Sale of Documents, Merchandise and Property	(17,648)			(17,648)
Grants, Contracts, Donations and Abandonments		(38,480)		(38,480)
Other Financing Sources		(699,979)		(699,979)
Federal		2,403,024	40,727	2,443,751
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u><u>(5,822,640)</u></u>	\$ <u><u>1,654,092</u></u>	\$ <u><u>128,489</u></u>	\$ <u><u>(4,040,059)</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

PROGRAM (SUB-CLASS) EXPENDITURES & TRANSFERS-OUT	Local Education Activities	State Level Activities	Total
Personal Services			
Salaries		\$ 5,098,030	\$ 5,098,030
Employee Benefits		1,265,671	1,265,671
Personal Services-Other		76,536	76,536
Total		<u>6,440,237</u>	<u>6,440,237</u>
Operating Expenses			
Other Services	\$ 128,250	2,261,433	2,389,683
Supplies & Materials		582,357	582,357
Communications		347,987	347,987
Travel		737,088	737,088
Rent		287,230	287,230
Utilities		788	788
Repair & Maintenance		101,153	101,153
Other Expenses		1,959,101	1,959,101
Total	<u>128,250</u>	<u>6,277,137</u>	<u>6,405,387</u>
Equipment & Intangible Assets			
Equipment		43,740	43,740
Total		<u>43,740</u>	<u>43,740</u>
Local Assistance			
From State Sources	556,664,413	19,301	556,683,714
Total	<u>556,664,413</u>	<u>19,301</u>	<u>556,683,714</u>
Grants			
From State Sources	415,534		415,534
From Federal Sources	87,763,668	505	87,764,173
Total	<u>88,179,202</u>	<u>505</u>	<u>88,179,707</u>
Transfers			
Accounting Entity Transfers		24,460	24,460
Total		<u>24,460</u>	<u>24,460</u>
Total Expenditures & Transfers-Out	<u>\$ 644,971,865</u>	<u>\$ 12,805,380</u>	<u>\$ 657,777,245</u>
EXPENDITURES & TRANSFERS-OUT BY FUND			
General Fund	\$ 510,532,821	\$ 4,391,949	\$ 514,924,770
Special Revenue Fund	134,439,044	6,640,336	141,079,380
Enterprise Fund		92,770	92,770
Internal Service Fund		1,680,325	1,680,325
Total Expenditures & Transfers-Out	<u>644,971,865</u>	<u>12,805,380</u>	<u>657,777,245</u>
Less: Nonbudgeted Expenditures & Transfers-Out		219,548	219,548
Prior Year Expenditures & Transfers-Out Adjustments	(7,356)	14,019	6,663
Actual Budgeted Expenditures & Transfers-Out	<u>644,979,221</u>	<u>12,571,813</u>	<u>657,551,034</u>
Budget Authority	754,591,573	14,746,479	769,338,052
Unspent Budget Authority	<u>\$ 109,612,352</u>	<u>\$ 2,174,666</u>	<u>\$ 111,787,018</u>
UNSPENT BUDGET AUTHORITY BY FUND			
General Fund	\$ 97,300,345	\$ 63,269	\$ 97,363,614
Special Revenue Fund	12,312,007	2,083,543	14,395,550
Enterprise Fund		9,209	9,209
Internal Service Fund		18,645	18,645
Unspent Budget Authority	<u>\$ 109,612,352</u>	<u>\$ 2,174,666</u>	<u>\$ 111,787,018</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

OFFICE OF PUBLIC INSTRUCTION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Program (Sub-Class) Not Specified	Distribution to Public Schools	OP/ Administration	Total
PROGRAM (SUB-CLASS) EXPENDITURES & TRANSFERS-OUT				
Personal Services				
Salaries			\$ 4,971,761	\$ 4,971,761
Employee Benefits			1,244,906	1,244,906
Personal Services-Other	\$ 21,413			21,413
Total	<u>21,413</u>		<u>6,216,667</u>	<u>6,238,080</u>
Operating Expenses				
Other Services		\$ 110	2,300,970	2,301,080
Supplies & Materials			640,551	640,551
Communications			330,051	330,051
Travel			703,792	703,792
Rent			337,828	337,828
Utilities			417	417
Repair & Maintenance			93,040	93,040
Other Expenses		21,009	2,163,251	2,184,260
Goods Purchased For Resale			30	30
Total		<u>21,119</u>	<u>6,569,930</u>	<u>6,591,049</u>
Equipment & Intangible Assets				
Equipment			26,323	26,323
Total			<u>26,323</u>	<u>26,323</u>
Local Assistance				
From State Sources		503,992,864	16,972	504,009,836
Total		<u>503,992,864</u>	<u>16,972</u>	<u>504,009,836</u>
Grants				
From State Sources		906,079		906,079
From Federal Sources		77,639,824		77,639,824
Total		<u>78,545,903</u>		<u>78,545,903</u>
Total Expenditures & Transfers-Out	\$ <u>21,413</u>	\$ <u>582,559,886</u>	\$ <u>12,829,892</u>	\$ <u>595,411,191</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund		\$ 503,694,207	\$ 5,385,745	\$ 509,079,952
Special Revenue Fund		78,865,679	6,037,860	84,903,539
Internal Service Fund	\$ 21,413		1,406,287	1,427,700
Total Expenditures & Transfers-Out	<u>21,413</u>	<u>582,559,886</u>	<u>12,829,892</u>	<u>595,411,191</u>
Less: Nonbudgeted Expenditures & Transfers-Out	21,724		14,896	36,620
Prior Year Expenditures & Transfers-Out Adjustments	(311)		(26,976)	(27,287)
Actual Budgeted Expenditures & Transfers-Out	<u>0</u>	<u>582,559,886</u>	<u>12,841,972</u>	<u>595,401,858</u>
Budget Authority	<u>0</u>	<u>588,404,025</u>	<u>15,885,705</u>	<u>604,289,730</u>
Unspent Budget Authority	\$ <u>0</u>	\$ <u>5,844,139</u>	\$ <u>3,043,733</u>	\$ <u>8,887,872</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund		\$ 501,395	\$ 31,062	\$ 532,457
Special Revenue Fund		5,342,744	2,936,996	8,279,740
Internal Service Fund			75,675	75,675
Unspent Budget Authority	\$ <u>0</u>	\$ <u>5,844,139</u>	\$ <u>3,043,733</u>	\$ <u>8,887,872</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Office of Public Instruction

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2002

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the office records:

- Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
- Expenditures for valid obligations when the office incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual leave and sick leave when used or paid.

The office uses accrual basis accounting for its Proprietary and Fiduciary Funds. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. In fiscal years 2000-01 and 2001-02, financial transactions were recorded on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS). The financial schedules are prepared from the transactions posted to SABHRS without adjustment. As described in note 9 on page A-15, the financial schedules reflect the retroactive application of the requirements of Chapter 10, Laws of 2002.

Notes to the Financial Schedules

State law requires the office to record its financial transactions on SABHRS in accordance with generally accepted accounting principles (GAAP). The 2001 Legislature modified the fund structure established in section 17-2-102, MCA, to implement changes made to GAAP by the Governmental Accounting Standards Board (GASB) Statement 34. These changes were effective July 1, 2001. Office accounts are organized in funds according to state law. The office uses the following funds:

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund. General Fund activity primarily involves distributions of state support to schools.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Office Special Revenue Funds include traffic safety education, research & advisory council, private grants, federal grants, and distributions of state support to schools made through the Guarantee Account.

Proprietary Funds

Internal Service Fund - to account for providing goods or services to other funds, agencies or departments on a cost-reimbursement basis. The office Internal Service Fund contains the indirect cost pool.

Enterprise Fund - to account for any activity financed and operated in a manner similar to private business enterprises, for which a fee is charged to external users. The Enterprise Fund contains the advanced driver's education program in fiscal year 2001-02. This program was recorded in the Special Revenue Fund in fiscal year 2000-01.

Fiduciary Fund

Agency Fund - to account for resources held by the state in a purely custodial capacity. The office records custodial cash accounts for student vocational education organizations in the Agency Fund.

**2. General Fund Balance
(Negative Balances)**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office expends cash or other assets from the statewide fund when it pays General Fund obligations. The office's outstanding liabilities exceeded the assets it placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2001, and June 30, 2002.

**3. Expenditure Program
(Sub-Class)**

As part of the implementation of a new accounting system in fiscal year 1999-00, state officials determined that a sub-class designation would identify the program to which an expenditure should be charged. State officials did not require nonbudgeted expenditure transactions to be identified to a sub-class. The program designations in the Schedules of Total Expenditures & Transfers-Out are based on the sub-class designation used when the expenditures were recorded. During fiscal year 2000-01, the accounting system did not require agencies to code nonbudgeted accounts with a sub-class code identifying the expenditure program in which the activity occurred. This nonbudgeted activity is included in the column titled Program (Sub-Class) Not Specified on the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2001. In fiscal year 2001-02, all expenditure transactions entered through the general ledger contained a sub-class value.

Effective with fiscal year 2001-02, the office changed its sub-class titles. 'OPI Administration' became 'State Level Activities' and 'Distribution to Schools' became 'Local Education Activities.' The types of activity recorded in those sub-classes did not change.

**4. Direct Entries to Fund
Balance**

Direct entries to fund balances in the General and Special Revenue Fund types in fiscal years 2000-01 and 2001-02 include entries generated to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund balance in the General Fund represent moneys made available for state support to schools. In fiscal year 2001-02, direct entries to fund balance also include moneys made available for school district block grants.

Notes to the Financial Schedules

In the Special Revenue Fund, direct entries to fund balance represent a portion of the fees collected by the Department of Justice for driver's licenses and duplicate licenses that are made available to the office for distribution to schools for traffic and safety education. It also includes certification fees collected by the office that are made available to the Board of Public Education for advisory council and research fund purposes. In addition, moneys made available for distribution to schools through the Guarantee Account are recorded as direct entries to fund balance.

Direct entries to fund balance in the Internal Service Fund in fiscal year 2001-02 represent corrections made to compensated absences.

The above-described activities appear on the Schedules of Changes in Fund Balances & Property Held in Trust for the fiscal years ended June 30, 2001, and 2002.

5. **Commodities**

The office had custody of \$518,590 in food commodities inventory at June 30, 2002. The office distributed food commodities valued at \$2,303,866 and \$2,315,912 to school districts during fiscal years 2000-01 and 2001-02, respectively. The value of the food commodities is not recorded on the office's accounting records, in accordance with GAAP.

6. **Phillips County Settlement**

During fiscal year 2000-01, the office received a settlement in an ongoing matter of litigation with Phillips County amounting to \$5,200,034. The settlement involves tax proceeds and interest attributable to the statewide school equalization and university mill levies, collected by Phillips County under authority of the local government severance tax statutes enacted in 1989 and 1993, and the oil and gas production tax statutes enacted in 1995. The settlement is recorded as taxes on the Schedule of Total Revenues & Transfers-In for fiscal year 2000-01.

Notes to the Financial Schedules

7. **Fines and Forfeits
Revenues Underestimated**

The office established a revenue estimate of \$5,804,992 in the fines and forfeits revenue class in relation to the Phillips County settlement referred to in note 6. Subsequently, the decision was made to record the settlement as Taxes rather than Fines and Forfeits. Office personnel established a separate revenue estimate for the amount of the settlement in the Taxes revenue class, but did not eliminate the original revenue estimate. As a result, Fines and Forfeits revenues are less than the estimate by \$5,804,992 on the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2001.

8. **Block Grants**

Chapter 574, Laws of 2001, established school district block grants to replace certain non-levy revenues effective July 1, 2001. The office is responsible for distributing the school district block grants. Prior to this change, these revenues were distributed to schools at the local level. The revenues are now collected by the counties on behalf of the state and are deposited in the General Fund. The fiscal year 2001-02 block grant distributions of \$66,509,285 are recorded as local assistance from state sources in the Local Education Activities column on the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2002.

9. **Guarantee Account**

Chapter 418, Laws of 2001, established a Guarantee Account for distributing the interest and income earnings from the Common School Trust Fund to school districts, effective July 1, 2001. The Guarantee Account was originally established as a sub-fund of the General Fund. Chapter 10, Laws of 2002, retroactively established the Guarantee Account as a Special Revenue Fund for fiscal year 2001-02. The financial activity reported on the Schedule of Changes in Fund Balances & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2002, reflects the retroactive nature of Chapter 10, Laws of 2002.

The negative fund balance in the Special Revenue Fund at June 30, 2002, does not indicate overspent appropriation authority. The office has the authority to pay obligations from the Guarantee Account

Notes to the Financial Schedules

within its appropriation limits. The office obtained an inter-entity loan from the General Fund in order to complete the required distributions from the Guarantee Account by June 30, 2002. The office's outstanding liabilities exceeded the assets it placed in the Guarantee Account, resulting in a negative ending Special Revenue Fund balance for the fiscal year ended June 30, 2002.

Agency Response



— Montana Office of Public Instruction —

Linda McCulloch
State Superintendent

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OCT 07 2002

LEGISLATIVE AUDIT DIV.

October 4, 2002

TO THE LEGISLATIVE AUDIT COMMITTEE OF THE MONTANA STATE LEGISLATURE

Following is our response to recommendations contained in the Office of Public Instruction's 2001-2002 audit report.

Recommendation #1.

We recommend the office comply with federal regulations requiring on-site reviews of school food authorities participating in the National School Lunch Program.

OPI response: We concur. A schedule for completing on-site reviews in accordance with federal regulations has been submitted to, and approved by, the USDA. The approved schedule will result in our full compliance with federal on-site review requirements by June 30, 2006. Completion of reviews in accordance with this schedule will depend on Legislative approval of our request for one additional federally funded employee.

Recommendation #2.

We recommend the office reimburse school food authorities participating in the Special Milk Program in accordance with federal regulations.

OPI response: We concur. Rates in the automated system used to calculate Special Milk reimbursements have been corrected. Reimbursements are now paid in accordance with federal regulations.

Recommendation #3.

We recommend the office administer compensatory time in accordance with state policy.

OPI response: We concur. We believed the payment was permissible based on consultation with the state Personnel Division. We are now aware that state policy requires employee forfeiture of excess compensatory time and will comply.

Recommendation #4.

We recommend the office take immediate appropriate action to eliminate the conflict of interest.

OPI response: We concur that the described relationship between an OPI employee and an organization receiving federal Migrant Education funds presents a circumstance that may be prohibited by the Montana statutory law outlined in the Auditor's report. However, we are uncertain at this point whether a conflict exists in fact or by law.

This employee has served in this capacity for ten years. Nonetheless, we are taking appropriate action to evaluate that relationship and any similar relationships involving OPI employees and are eliminating any prohibited conflicts. Part of our evaluation will be to request an Attorney General's Opinion as to the meaning of the subject statutes and their applicability to state employees in this context. Pending this evaluation, this particular employee has ceased interacting with that organization. Please be aware that our intent is to follow Montana law. If the Attorney General concludes that this kind of relationship is prohibited, we will end this one and any similar relationship immediately. Even if he concludes it is permitted, we will create and implement clearer procedures by which OPI employees are authorized to serve on such boards.

We appreciate the professionalism extended by your staff during the audit. If we can provide additional information, please contact us.

Sincerely,

A handwritten signature in cursive script, appearing to read "Linda McCulloch".

Linda McCulloch
Superintendent of Public Instruction